

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 SPC-03 SAM-01 AID-20

NSC-10 RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01

CEA-02 CIAE-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 DODE-00 PM-07 H-03 L-03 PA-04 PRS-01

USIA-15 DRC-01 /188 W

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R 081951Z FEB 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7842

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 01808

DEPARTMENT FOR TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING FEBRUARY 8

BEGIN SUMMARY: AFTER LAST WEEK'S STRENGTHENING, THE POUND
MOVED DOWNWARD THIS WEEK REACHING \$2.2300 ON WEDNESDAY

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(FEBRUARY 6) WITH A TRADE WEIGHTED DEVALUATION OF 18.9

PERCENT. WITH THE ANNOUNCEMENT OF AN ELECTION ON FEBRUARY 28 AND A POSSIBLE POSTPONEMENT OF THE MINERS STRIKE, THE POUND STRENGTHENED TO CLOSE ON THURSDAY (FEBRUARY 7) AT \$2.2470 DOWN 300 POINTS FROM LAST THURSDAY'S CLOSE. GOLD ROSE SHARPLY CLOSING AT A NEAR RECORD HIGH OF \$140 ON THURSDAY (FEBRUARY 7). THE STOCK MARKET FELL ON TUESDAY (FEBRUARY 5) TO ITS LOWEST LEVEL SINCE NOVEMBER 1966 FOLLOWING THE NUM'S CALL FOR STRIKE ACTION. BOTH THE FINANCIAL TIMES MONTHLY SURVEY OF BUSINESS OPINION AND THE LATEST INDUSTRIAL TRENDS SURVEY BY THE CONFEDERATION OF BRITISH INDUSTRY (CBI) SHOW U.K. INDUSTRY IN A ACUTELY DEPRESSED STATE WITH BUSINESS CONFIDENCE AT AN ALL-TIME LOW. IN JANUARY, U.K. OFFICIAL RESERVES FELL BY \$298 MILLION TO STAND AT \$6,178 MILLION AT THE END OF THE MONTH. RETAIL SALES FIGURES FOR DECEMBER SHOWED CONSUMER DEMAND AS STILL BEING FAIRLY BUOYANT BUT THE TOTAL VOLUME OF SALES FOR 1973 AS A WHOLE ROSE 4.5 PERCENT COMPARED TO 5-3/4 PERCENT IN 1972. NEW INSTALLMENT CREDIT IN DECEMBER WAS THE LOWEST MONTHLY RATE OF 1973. WHILE THE LATEST FIGURES FROM THE LONDON CLEARING BANKS SHOW A RISE IN THEIR RESERVE RATIO IN THE 5-WEEK PERIOD TO MID-JANUARY, THEIR RESOURCES ARE NOW UNDER SUBSTANTIAL PRESSURE AND THE BANK OF ENGLAND HAS TAKEN SEVERAL MEASURES TO EASE UP ON CREDIT. END SUMMARY

1. STERLING, AFTER MOVING UP SHARPLY THE WEEK OF JANUARY 28-FEBRUARY 1, MOVED DOWNWARD THIS WEEK UNTIL WEDNESDAY CLOSING AT \$2.23 AGAINST THE DOLLAR. ON THURSDAY IT ROSE 130 POINTS TO \$2.2470 IN REACTION TO THE PRIME MINISTER'S DECISION TO CALL AN ELECTION AND THE HOPE THAT THE MINERS WOULD POSTPONE THEIR STRIKE. STERLING'S TRADE-WEIGHTED DEVALUATION AGAINST DECEMBER 1971 RATES WIDENED OVER THE WEEK TO 18.9 PERCENT ON WEDNESDAY (FEBRUARY 6) AND NARROWED SLIGHTLY TO 18.6 PERCENT ON THURSDAY (FEBRUARY 7) COMPARED TO 17 PERCENT A WEEK AGO. GOLD TOOK A LEAP ON TUESDAY (FEBRUARY 5) RISING \$5.50 TO CLOSE AT \$140. IT FELL BACK TO \$138.50 ON WEDNESDAY BUT ROSE AGAIN TO \$140 ON THURSDAY (FEBRUARY 7), UP \$8 ON LAST THURSDAY'S CLOSE.

2. THE LONDON STOCK MARKET CONTINUED BEARISH WITH THE FT UNCLASSIFIED

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30-SHARE INDEX FALLING BELOW 300 TO 298.2 ON TUESDAY, FEBRUARY 5. THE CLOSE WAS THE LOWEST SINCE NOVEMBER, 1966, AND WIPED OUT ALL THAT HAS HAPPENED SINCE LATE 1959 WHEN THE INDEX FIRST WENT THROUGH 300 ON THE UPWARD TRACK. THE NEWS OF THE ELECTION, HOWEVER, BROUGHT RISES IN SHARE PRICES AND A RISE OF 5 POINTS ON THE DAY AT 308.2.

3. THE FT MONTHLY SURVEY OF BUSINESS OPINION SHOWS THAT BUSINESS CONFIDENCE HAS PLUNGED TO THE LOWEST LEVEL IN THE 7-YEAR HISTORY OF THE SURVEY. INDUSTRY HAS ALSO BECOME MORE PESSIMISTIC ABOUT THE INFLATIONARY OUTLOOK. ON THE OTHER HAND, EXPORT PROSPECTS ARE STILL CONSIDERED TO BE FAVORABLE. THE CONTINUING BUOYANCY OF EARNINGS FORECASTS AND THE LACK, AS YET, OF ANY INDICATION THAT CAPITAL INVESTMENT INTENTIONS ARE BEING SCALED DOWN BECAUSE OF THE CRISIS COULD BE REGARDED AS ENCOURAGING FACTORS. MANY DECISIONS ARE BEING POSTPONED. THE LATEST CBI INDUSTRIAL TRENDS SURVEY IS THE GLOOMIEST IN SURVEY'S 16-YEAR HISTORY. PRODUCTION, ORDERS, EMPLOYMENT AND INVESTMENT ARE ALL EXPECTED TO FALL SHARPLY OVER THE NEXT FOUR MONTHS. INDUSTRIAL COSTS ARE RISING RAPIDLY AND THERE IS EVERY SIGN THAT DOMESTIC PRICES WILL HAVE TO BE

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INCREASED CONSIDERABLY BETWEEN NOW AND THE MIDDLE OF NEXT YEAR. THE QUESTIONNAIRE WAS ANSWERED BETWEEN JANUARY 7 AND 23, A PERIOD OF REAL UNCERTAINTY.

4. U.K. OFFICIAL RESERVES FELL BY \$298 MILLION DURING JANUARY AFTER ACCRUALS OF FOREIGN CURRENCY BORROWINGS BY THE PUBLIC SECTOR OF \$12 MILLION. AT THE END OF JANUARY RESERVES STOOD AT \$6,178. THE FIGURES OF \$298 MILLION UNCLASSIFIED

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AND \$6,178 MILLION ARE RESPECTIVELY EQUIVALENT TO 103 MILLION POUNDS AND 2,134 MILLION POUNDS IF CONVERTED AT THE PARITY RATE OF ONE POUND \$2.89524 OR 131 MILLION POUNDS AND 2,708 MILLION POUNDS IF CONVERTED AT THE CLOSING MARKET RATE ON JANUARY 31 OF ONE POUND \$2.2810. ON TUESDAY, FEBRUARY 5, THE ELECTRICITY COUNCIL ANNOUNCED IT WAS RAISING A LOAN OF \$500 MILLION IN THE EURO-DOLLAR MARKET. THIS WILL BRING THE TOTAL AMOUNT OF PUBLIC SECTOR FOREIGN CURRENCY BORROWING SINCE MARCH LAST YEAR TO \$3 BILLION.

5. THE INDEX OF THE VOLUME OF RETAIL SALES IN DECEMBER WAS 112.9 (S.A., 1971=100), SHOWING A FURTHER SMALL INCREASE OVER THE NOVEMBER LEVEL (112.3). COMPARED WITH A YEAR EARLIER, TOTAL SALES IN DECEMBER WERE ONLY 1.5 PERCENT HIGHER, FOLLOWING YEAR-ON-YEAR INCREASES OF OVER 3 PERCENT FOR RECENT MONTHS. AMONG THE FACTORS AFFECTING THE LEVEL OF TRADE IN DECEMBER WERE THE SPECIAL 10 POUND PAYMENT TO PENSIONERS WHICH TENDED TO INCREASE SALES AND POWER RESTRICTIONS ON SHOP OPENING HOURS, THE INTRODUCTION OF RESTRICTIONS ON CREDIT, AND POSSIBLY ALSO THE RAIL DISPUTE WHICH TENDED TO DECREASE SALES.

6. NEW INSTALLMENT CREDIT ADVANCED BY FINANCE HOUSES AND RETAILERS TOTALED 220 MILLION POUNDS IN DECEMBER, THE LOWEST MONTHLY RATE IN 1973. HOWEVER, THE TOTAL FOR THE YEAR WAS 2,873 MILLION POUNDS UP ALMOST 16 PERCENT FROM 2,497 MILLION POUNDS IN 1972. THE DROP IN NEW INSTALLMENT CREDIT IS RELATED TO HIGHER INTEREST RATES AND TO THE MEASURES OF DECEMBER 19 WHEN HIRE PURCHASE CONTROLS WERE REINTRODUCED.

7. STERLING ADVANCES BY THE LONDON CLEARING BANKS TO U.K. RESIDENTS ROSE BY 776 MILLION POUNDS IN THE FIVE WEEKS TO JANUARY 16. OVER THE SAME PERIOD STERLING DEPOSITS BY U.K. RESIDENTS ROSE BY 625 MILLION POUNDS, THE DOMINANT FACTOR IN THE INCREASE OF ADVANCES WAS THE QUARTERLY AND HALF-YEARLY INTEREST AND COMMISSION CHARGES. THE RESERVE RATIO FOR THE FIVE CLEARING BANKS WAS 14.0 COMPARED TO 13.8 IN DECEMBER.

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8. THE FORWARD DISCOUNTS ON STERLING WIDENED OVER THE WEEK.

	1/31	2/7	CHANGE
1 MONTH	2.87-1/2	2.90	UP 0.02-1/2
3 MONTHS	5.95	6.65	UP 0.70
6 MONTHS	9.75	10.60	UP 0.85

(ALL FIGURES IN CENTS)

9. LOCAL AUTHORITY DEPOSIT RATES MOVED DOWNWARD AT 1 MONTH AND 3 MONTHS AND UPWARD AT 6 MONTHS.

	1/31	2/7	CHANGE
1 MONTH	16	15-1/16	DOWN 15/16
3 MONTHS	16-3/16	15-11/16	DOWN 1/2
6 MONTHS	15-3/4	15-7/8	UP 1/8

10. EURO-DOLLAR RATES MOVED DOWNWARD OVER THE WEEK.

	1/31	2/7	CHANGE
1 MONTH	8-3/4	8-5/16	DOWN 7/16
3 MONTHS	8-3/4	8-7/16	DOWN 5/16
6 MONTHS	8-3/4	8-7/16	DOWN 5/16

11. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 12-1/2 PERCENT ON FRIDAY, FEBRUARY 8.

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